

AB  
3/3



08026367

086  
Mail Processing  
Section

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FEB 27 2008

Washington, DC  
103

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	February 28, 2010
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8-17264

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Crown Capital Securities, LP

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

725 Town and Country Road, Suite 530

(No. and Street)

Orange, California

92868

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Darol K. Paulsen,

President

714 547-9481

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Bates Coughtry Reiss LLP

(Name - if individual, state last, first, middle name)

2600 Nutwood Ave., Suite 200 Fullerton, California 92831-3105

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant

☐ Public Accountant

☐ Accountant not resident in United States or any of its possessions.

**PROCESSED**

**MAR 05 2008**

**THOMSON  
FINANCIAL**

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of  
information contained in this form are not required to respond  
unless the form displays a currently valid OMB control number.

OK 3/4/08

# OATH OR AFFIRMATION

I, Darol K. Paulsen, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Crown Capital Securities, LP, as of December 31,, 20 07, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_

\_\_\_\_\_

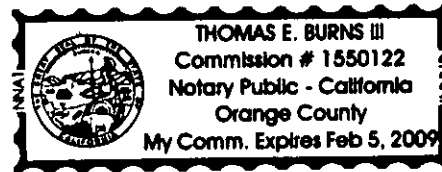
\_\_\_\_\_

Signature

PRESIDENT

Title

Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- N/A ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- EXEMPT ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- EXEMPT ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- EXEMPT ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- N/A ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- N/A ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

**CROWN CAPITAL SECURITIES, L.P.**

**AUDITORS' REPORT**

**DECEMBER 31, 2007**

TABLE OF CONTENTS

	<u>Page</u>
AUDITORS' REPORT .....	1
FINANCIAL STATEMENTS	
Balance Sheet .....	2
Statement of Income .....	3
Statement of Changes in Partners' Capital .....	4
Statement of Cash Flows .....	5
NOTES TO FINANCIAL STATEMENTS .....	6 – 9
SUPPLEMENTARY SCHEDULES, LETTER and REPORT	
Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 .....	10
Schedule II – Exemption from Reserve Requirements Pursuant to Rule 15c3-3 .....	10
Schedule III – Information Relating to the Possession or Control Requirements Under Rule 15c3-3 .....	10
Schedule IV – Reconciliation Pursuant to Rule 17a5(d)(4) .....	10
Schedule V – Reconciliation of the Computation of Net Capital Under Rule 15c3-1 .....	11
Supplementary S.E.C. Compliance Letter .....	12
Report on Internal Control Pursuant to S.E.C. Rule 17a-5 .....	13 – 14

**Bates  
Coughtry  
Reiss  
LLP**

Serving Growing  
Companies Since 1967

David L. Bates  
Wayne R. Coughtry  
(1936 - 1997)  
Stephen P. Janowicz\*  
Kenneth J. Lickhus\*  
Jeffrey P. Reiss  
.....  
Brian D. Bates  
Steve Bertolucci  
Robyn R. Bjorklund  
Kathy Evans  
Lori Henderson  
Shawn B. LaBurn  
Louis H. Lopez  
Judith A. Pappe  
(1946 - 2005)

\*Professional Corporation

**INDEPENDENT AUDITORS' REPORT**

To the Management of  
Crown Capital Securities, L.P.  
725 Town & Country Road, Suite 530  
Orange, CA 92868

We have audited the balance sheet of Crown Capital Securities, L.P. (a Delaware Limited Partnership) as of December 31, 2007 and the related statements of income, changes in partners' capital, and cash flows for the year then ended. These financial statements are the responsibility of the Limited Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Crown Capital Securities, L.P. as of December 31, 2007, and the results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I, II, III, IV, V, and the S.E.C. compliance letter is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 of the Securities and Exchange Commission Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Fullerton, California  
February 25, 2008



CROWN CAPITAL SECURITIES, L.P.  
BALANCE SHEET  
December 31, 2007

**ASSETS**

**CURRENT ASSETS:**

Cash	\$ 4,383,321
Accounts receivable	1,775,806
Prepaid insurance	<u>42,581</u>
Total current assets	6,201,708

**OTHER ASSETS:**

Loans receivable	4,728
Deposit - Pershing	50,000
Deposit - Other	<u>5,403</u>
Total assets	<u>\$ 6,261,839</u>

**LIABILITIES AND PARTNERS' CAPITAL**

**CURRENT LIABILITIES:**

Commissions payable	\$ 2,224,942
Conference deposits	227,694
Accrued expenses	<u>29,310</u>
Total current liabilities	2,481,946

**COMMITMENTS**

-

**PARTNERS' CAPITAL**

3,779,893

Total liabilities and partners' capital	<u>\$ 6,261,839</u>
---	---------------------

See Auditors' Report.  
See Accompanying Notes to Financial Statements.

CROWN CAPITAL SECURITIES, L.P.  
STATEMENT OF INCOME  
For the Year Ended December 31, 2007

**REVENUE:**

Variable Annuities	\$ 12,160,177
Mutual Funds	8,040,325
RIA	7,774,027
Securities	2,235,767
Variable Life	414,274
Limited Partnerships	7,798,514
Tax Sheltered Annuities	396,750
Insurance	5,585
Interest Income	35,343
Marketing Fees	491,270
Miscellaneous	38,887
Reimbursements	<u>875,907</u>
Total Revenue	40,266,826

**EXPENSES:**

Automobile Expenses	26,498
Advertising, Printing, & Postage	151,923
Commission Expense	34,371,230
Contract Service Fees - Personnel	1,700,174
Contract Service Fees - Facilities & Equipment	276,718
Conferences and Seminars	104
Computer Services	47,960
Computer Image Processing	21,685
Dues and Subscriptions	178,556
Insurance	622,621
Interest	23,329
Meals & Entertainment	82,407
Office Supplies and Expenses	28,361
Professional Fees	135,088
Tax, License and Permits	206,753
Miscellaneous Expenses	1,595
Settlements	<u>1,328,772</u>
Total Expenses	39,203,774

<b>NET INCOME</b>	<b><u>\$ 1,063,052</u></b>
-------------------	----------------------------

See Auditors' Report.  
See Accompanying Notes to Financial Statements.

CROWN CAPITAL SECURITIES, L.P.  
STATEMENT OF CHANGES IN PARTNERS' CAPITAL  
As of December 31, 2007

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total</u>
Beginning Partners' Capital	\$ 2,152,310	\$ 1,527,364	\$ 3,679,674
Net Income	715,753	347,299	1,063,052
Distributions to Partners	<u>(648,275)</u>	<u>(314,558)</u>	<u>(962,833)</u>
Ending Balance at December 31, 2007	<u>\$ 2,219,788</u>	<u>\$ 1,560,105</u>	<u>\$ 3,779,893</u>

See Auditors' Report.  
See Accompanying Notes to Financial Statements.



CROWN CAPITAL SECURITIES, L.P.  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2007  
Increase (Decrease) in Cash and Cash Equivalents

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income		\$ 1,063,052
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of loan receivable commission	\$ 6,394	
Changes in operating assets and liabilities:		
Decrease in accounts receivable	125,482	
Decrease in prepaid expenses	49,939	
Increase in deposits	(1,993)	
Decrease in commissions payable	(8,385)	
Increase in conference deposits	51,801	
Decrease in accrued expenses	<u>(59,716)</u>	
Total adjustments		<u>163,522</u>
Net cash provided by operating activities		1,226,574

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Cash distributions to partners	<u>(962,833)</u>	
Net cash used for financing activities		<u>(962,833)</u>
Net Increase in Cash and Cash Equivalents		263,741
Cash and Cash Equivalents at Beginning of Year		<u>4,119,580</u>
Cash and Cash Equivalents at End of Year		<u>\$ 4,383,321</u>

See Auditors' Report.  
See Accompanying Notes to Financial Statements.

CROWN CAPITAL SECURITIES, L.P.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007

**NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

- A. The Limited Partnership was formed in the State of Delaware on January 4, 1999 for the purpose of operating as a registered broker/dealer and investment advisor, and providing investment services.

Effective June 1, 1999, the Partnership purchased the broker/dealer license from Eric Equities, Inc. As of June 1, 1999 all of Eric Equities, Inc.'s security and annuity activities were transferred to Crown Capital Securities, L.P. and Crown Capital Securities, L.P. commenced business as a broker/dealer. As of December 31, 2007 the Partnership is registered in fifty states and Washington, D.C.

- B. The Partnership has entered into an agreement with Consolidated Brokerage Services, Inc. (CBS) (a California corporation), where Consolidated Brokerage Services, Inc. performs various services for the Partnership, and in return the Partnership pays a monthly fee to Consolidated Brokerage Services, Inc. (Note 6)
- C. All transactions are recorded using the accrual method of accounting.
- D. Management has reviewed accounts receivable and believes all receivables on December 31, 2007 are collectible. As such, no allowance for bad debts has been included in the statements. Approximately \$403,071 of the accounts receivable are held in various brokerage escrow accounts with Pershing LLC.
- E. Commissions are reflected as income when earned and commissions due to salesmen are recorded as expense when incurred.
- F. Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2007 is \$102,758.
- G. All material tax effects of the Partnership's income or loss are passed through to the partners individually; therefore, no provision for income tax is reflected on these statements.
- H. The Statement of Cash Flows is prepared on the cash and cash equivalent basis using the indirect method. For purposes of the Statement of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of one month or less to be cash equivalents.
- I. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

See Auditors' Report.

CROWN CAPITAL SECURITIES, L.P.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007

**NOTE 2 – LOANS RECEIVABLE**

The Partnership has loans receivable from two registered representatives in the sum of \$3,624, and \$1,104 bearing interest at seven percent \$7% per annum as of December 31, 2007. The loans are forgivable in annual amounts of \$3,624 and \$1,104 respectively, over a remaining registration service commitment. Each agreement has a provision that if there is a termination of services the outstanding principal and any accrued interest becomes receivable upon demand. All forgiven amounts shall constitute income to the representative, respectively, in the year which it is forgiven, and an operating expense of the Partnership.

**NOTE 3 – CONFERENCE DEPOSITS**

The conference deposits of \$227,694 at December 31, 2007 are for attendance fees received for participation in Crown Capital Securities, L.P.'s Marketing Programs in 2008.

**NOTE 4 – CONTINGENT LIABILITY**

The Company acts as an agent in selling tax-sheltered annuities for certain insurance companies. In the event of cancellation of any tax-sheltered annuity contracts by the purchasers, the Company may incur a liability for return of unearned commissions. However, the number of cancellations experienced by the Company to date has been insignificant.

**NOTE 5 – OPERATING LEASES**

The long-term operating leases for office space in Orange, California is sub-leased from a related party entity, Consolidated Brokerage Services, Inc. The lease expires in May 2010.

The following is a schedule by years of the remaining future minimum lease obligation payments for the years ending December 31: 2008 - \$208,618; 2009 - \$215,920; 2010 \$91,252

**NOTE 6 – RELATED PARTY TRANSACTIONS**

Various services of the Partnership are performed by Consolidated Brokerage Services, Inc. (CBS) pursuant to a service agreement. The individual that is the 100 percent owner of Consolidated Brokerage Services, Inc. also has an ownership interest in Delta Capital Holdings, LLC and Delta Broker Holding, LLC, which are the general and limited partners (respectively) of Crown Capital Securities, L.P. During the year ended December 31, 2007, the Partnership paid Consolidated Brokerage Services, Inc. \$2,514,673 for services and general operating expenses incurred pursuant to the service agreement.

The Partnership also has an affiliation agreement with Crown Capital Insurance Agency, L.L.C. (CCIA), where CCIA agrees to provide the Partnership with the exclusive use of the licenses that the Partnership reasonably requires to operate its business as a full-service broker/dealer and investment advisor. In consideration for CCIA providing the use of the licenses, the Partnership shall advance funds to or reimburse CCIA for any and all expenses CCIA incurs in connection with obtaining or maintaining the licenses, or otherwise in connection with the licenses.

During the year ended December 31, 2007, the Partnership paid CCIA \$10,700 as reimbursement for expenses.

See Auditors' Report.

CROWN CAPITAL SECURITIES, L.P.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007

**NOTE 7 – PURCHASE OF BROKER/DEALER LICENSE**

Effective June 1, 1999 Crown Capital Securities, L.P. purchased the broker/dealer license of Eric Equities, Inc. At June 1, 1999 all Eric Equities, Inc.'s security and annuity activities were transferred to Crown Capital Securities, L.P. and Crown Capital Securities, L.P. commenced business as a broker/dealer.

**NOTE 8 – STATEMENT OF CASH FLOWS**

A. Supplemental disclosure of Cash Flow information:

Cash paid during the year for:

Interest Expense	\$ 23,329
State Income Tax	\$ 1,654

Supplemental schedule of noncash investing and financing activities: none.

**NOTE 9 – CONCENTRATIONS OF CREDIT RISK**

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of:

**A. Trade Accounts Receivable**

Most of the Partnership's business activity, selling various types of securities and investments, is done through investment companies located nationwide.

**B. Cash Accounts**

The Partnership maintains its cash accounts in one primary financial institution located in Orange County, California and periodically purchases various certificate of deposits with other banks through the investment services offered by their primary bank. Balances at each financial institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. The Partnership's uninsured cash balance totaled \$3,448,505 as of December 31, 2007.

**NOTE 10 – NET CAPITAL REQUIREMENTS**

The Partnership is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to allowable net capital, both as defined, shall not exceed 15 to 1. At December 31, 2007, the Company had net capital of \$3,527,245 which was \$3,361,782 in excess of its required net capital of \$165,463. The Company's liabilities to net capital ratio was .704 to 1.

See Auditors' Report.

CROWN CAPITAL SECURITIES, L.P.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007

**NOTE 11 – CONTINGENCIES AND UNCERTANTIES**

As of December 31, 2007 the Partnership is involved in two multiparty NASD dispute resolution cases subject to arbitration. The Partnership intends to vigorously defend itself against the claims submitted by the investors. However, at this time it is not possible to predict the outcome of this matter, nor is it possible to estimate the amount or range of potential loss to the Partnership. In aggregate, the plaintiffs seek compensatory damages of approximately \$320,000 and interest and attorney costs. During the year ended December 31, 2007 the Partnership expensed various paid claims as result of settlements reached.

See Auditors' Report.

**SUPPLEMENTARY INFORMATION**

CROWN CAPITAL SECURITIES, L.P.  
SUPPLEMENTAL SCHEDULES  
December 31, 2007

**SCHEDULE I**

Computation of net capital pursuant to Rule 15c3-1:

Total Partners' Capital		\$ 3,779,893
Liabilities subordinated to claims of general creditors		-
Total capital and allowable subordinated liabilities		<u>3,779,893</u>
Less non-allowable assets:		
Accounts receivable	\$ 169,792	
Loans receivable	4,728	
Prepaid insurance	42,581	
Deposits – other	<u>5,403</u>	
Total non-allowable		222,504
Less other deductions:		
Fidelity bond deductible		<u>30,144</u>
Net capital		<u><u>\$ 3,527,245</u></u>

**SCHEDULE II**

Computation of reserve requirement pursuant to Rule 15c3-3:

The Partnership is exempt from any reserve computation requirements under the exemption provided for in Rule 15c3-3(k)(2)(ii).

**SCHEDULE III**

Information relating to the possession or control requirements under Rule 15c3-3:

The Partnership clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer.

The Partnership is exempt from possession or control requirements under the exemption provided for in Rule 15c3-3(k)(2)(ii).

**SCHEDULE IV**

Reconciliation of net capital computation to the reserve computation pursuant to Rule 17a5(d)(4):

The Partnership is exempt from any reserve requirements under Rule 15c3-3(k)(2)(ii). Accordingly, no computation nor reconciliation is required.

See Auditors' Report.

CROWN CAPITAL SECURITIES, L.P.  
SUPPLEMENTAL SCHEDULE V  
December 31, 2007

**RECONCILIATION OF THE COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1**

	Partners' Capital	Non-Allowable Items	Net Capital
Unaudited Fourth Quarter, Focus Report, 12/31/2007	\$ 3,527,245	\$ -	\$ 3,527,245
Subsequent Audit Adjustments: NONE			
Income:	-	-	-
Expenses:	-	-	-
Assets:			
Commissions Receivable (N/A)	-	-	-
Other Reductions: Fidelity Bond Provision	-	-	-
<b>Net Capital, 12/31/07</b>	<b>\$ 3,527,245</b>	<b>\$ -</b>	<b>\$ 3,527,245</b>

See Auditor's Report.



**Bates  
Coughtry  
Reiss  
LLP**

Serving Growing  
Companies Since 1967

David L. Bates  
Wayne R. Coughtry  
(1936 - 1997)  
Stephen P. Janowicz\*  
Kenneth J. Lickhus\*  
Jeffrey P. Reiss  
.....

Brian D. Bates  
Steve Bertolucci  
Robyn R. Bjorklund  
Kathy Evans  
Lori Henderson  
Shawn B. LaBurn  
Louis H. Lopez  
Judith A. Pappe  
(1946 - 2005)

\*Professional Corporation

To the Management of  
Crown Capital Securities, L.P.  
725 Town & Country Road, Suite 530  
Orange, CA 92868

We have examined the answers to the financial questionnaire Form X-17A-5 Part IIA of Crown Capital Securities, L.P. as of December 31, 2007 and have recomputed and reconciled portions thereof as reported on the separate supplementary schedules I and V and did not find any existing material differences.

This supplementary letter, which contains comments not considered necessary for a fair presentation of the financial statements or for the schedules and other data and information included in Form X-17A-5 Part III, is being furnished as a summary of the compliance with the audit requirements of the Securities and Exchange Commission.

Our consideration of the Limited Partnership's internal control over financial reporting can be found in the separate internal control report issued pursuant to SEC Rule 17a-5 for a Broker-Dealer claiming an exemption from SEC rule 15c3-3.

The Partnership is exempt from many of the Securities and Exchange Commission Broker-Dealer requirements because they clear all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and promptly transmit all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves such books and records pertaining thereto pursuant to the requirements of Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer.

The Partnership does not take delivery of nor provide safekeeping for customer securities. Therefore, no box counts were necessary during the period covered by this audit.

Fullerton, CA  
February 25, 2008



**Bates  
Coughtry  
Reiss  
LLP**

Serving Growing  
Companies Since 1967

David L. Bates  
Wayne R. Coughtry  
(1936 - 1997)  
Stephen P. Janowicz\*  
Kenneth J. Lickhus\*  
Jeffrey P. Reiss  
.....

Brian D. Bates  
Steve Bertolucci  
Robyn R. Bjorklund  
Kathy Evans  
Lori Henderson  
Shawn B. LaBurn  
Louis H. Lopez  
Judith A. Pappe  
(1946 - 2005)

\*Professional Corporation

To The Management of  
Crown Capital Securities, L.P.  
725 Town and Country Road, Suite 530  
Orange, CA 92868

In planning and performing our audit of the financial statements and supplemental schedules of Crown Capital Securities, L.P. (the Partnership), as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Partnership's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements and supplemental schedules, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control. Accordingly we do not express an opinion on the effectiveness of the Partnership's internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Partnership including consideration of control activities for safe guarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Partnership does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Partnership in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Partnership is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Partnership has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely

affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Partnership's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2007 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Fullerton, California  
February 25, 2008

A handwritten signature in black ink, appearing to read "Peter C. Reis LHP". The signature is written in a cursive, flowing style.

END